

# Paths to Reduce Concentration

## Section 351 Exchange: A Path to Broader Diversification—Without Immediate Tax Recognition

Strategy	Sustained Diversification	Favorable Tax Treatment	Liquidity	Benefit	Drawbacks
Gradual Taxable Sales	x	x	High	<ul style="list-style-type: none"> <li>Simple, straightforward approach</li> <li>Fully controlled by the investor</li> </ul>	<ul style="list-style-type: none"> <li>Reduces position only as fast as the investor sells</li> <li>Triggers immediate capital gains taxes</li> </ul>
Donor-Advised Fund (DAF)	x	✓	None	<ul style="list-style-type: none"> <li>Provides a charitable deduction</li> <li>Eliminates the concentrated position</li> <li>Avoids capital gains on the donated amount</li> </ul>	<ul style="list-style-type: none"> <li>Assets permanently removed</li> </ul>
Charitable Remainder Trust (CRT)	x	✓	None	<ul style="list-style-type: none"> <li>Provides a charitable deduction</li> <li>Provides a predictable income stream</li> <li>Allows tax-deferred asset sales inside the trust</li> </ul>	<ul style="list-style-type: none"> <li>Irrevocable structure</li> </ul>
Exchange Fund	✓	✓	Low	<ul style="list-style-type: none"> <li>Provides pooled equity exposure</li> <li>Defers capital gains until sale</li> </ul>	<ul style="list-style-type: none"> <li>Multi-year lockup</li> </ul>
Hedging (Options/Collars)	x	x	High	<ul style="list-style-type: none"> <li>Reduces downside risk</li> <li>Does not require selling the position</li> </ul>	<ul style="list-style-type: none"> <li>Does not reduce concentration</li> </ul>
Direct Indexing / Tax Overlay	x	✓	High	<ul style="list-style-type: none"> <li>Enables customizable portfolio construction</li> <li>Uses loss-harvesting to offset realized gains</li> </ul>	<ul style="list-style-type: none"> <li>Requires ongoing management</li> <li>Can drift into a concentrated tax-constrained portfolio</li> </ul>
<b>351 Exchange</b>	✓	✓	High	<ul style="list-style-type: none"> <li>Delivers instant diversification</li> <li>Avoids capital-gains recognition</li> <li>Involves no lockup period</li> </ul>	<ul style="list-style-type: none"> <li>Security eligibility required</li> <li>Contribution approval required</li> </ul>

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